Thursday, October 5th, 2006

Taxes: As you all know, I am a guy who believes lower taxes stimulate the economy, create jobs, can actually increase government revenue and...oh yeah...it's your money, not the government's money in the first place!

I was disturbed to read some recent comments by Congressman Charlie Rangel (D-NY) the ranking member on the Ways and Means Committee. In the DC vernacular this means he would be in charge of the tax policy committee if his party were in control. When asked by Bloomberg News if he thought any of the Bush tax cuts should be retained, he responded that he "cannot think of one." When asked if he would consider tax increases on all levels of income he responded "no question about it." All of the Bush tax cuts are scheduled to expire sometime in the next few years. So, to raise those taxes, Mr. Rangel would not even have to pass any legislation. All he would have to do is block any tax cut extension legislation from passing the House.

By the way, failing to extend these tax cuts would mean an increase in the capital gains tax, an increase in the tax on dividends, an increase of all levels of the income tax including elimination of the bottom 10% tax rate, the reinstatement of the marriage penalty, and a reduction in the child tax credit. This would literally increase taxes on every income bracket and impose taxes on some people who are exempt from them now. It would also kill economic growth. Scary.

The tax cuts on capital gains have been particularly helpful to the economy while generating increased revenue for the government. I recently cosponsored a bill to improve this tax cut that is getting some traction (assuming that Mr. Rangel is not in a position to stop it). This bill (HR 6067 by Cantor (R-VA) and Pence (R-IN)) would index capital gains taxes to inflation. Basically, you would not pay capital gains tax on any realized gains that were at or less than the increase in inflation during the period you held the asset. On the basis of equity, this bill makes sense. Why should you be taxed on an increase in "price" that does not represent an increase in "value" because of inflation? The regular income tax rates and some credits and exemptions are indexed to inflation, why not capital gains?

The one drawback with the bill is that the mechanism for doing this is very complex. Fellow CPA's (and others with a similar background) will understand what I mean when I say that this bill accomplishes it's goal by computing a quarterly increase in the basis of all tangible and intangible capital assets according to the CPI index increase for each quarter. This complexity will mean taxpayers will need more help from CPAs or computer programs, but they will likely take advantage of it because it will save them a lot of money.

One of my goals is to simplify the tax system. While this bill clearly does not do that, the bill will bring fairness and equity to the tax code and keep people from paying taxes on inflation. When I discussed the complexity for fairness trade off with one of the leading tax think tanks in Washington, they responded that the taxpayer can always choose simplicity by not factoring in inflation on their gains, and that this was a step on the way to complete elimination of capital gains tax (like some other countries have) which would be the simplest.

I'm still willing to take the fairness and live with the complexity. What do you think?

The “Big 4”: As you can see from the poll results at the right, illegal immigration is in the lead to be the first topic in my four week series on the Big 4. Look for these recaps of the top issues to begin next week.

Until next week, I remain respectfully,

Congressman John Campbell